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HOTEL BUSINESS

NEWS

HFS Buys Third Residential Real Estate Entity For \$740 Million

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the latest price in its buying spree, HFS stock rose more than \$1 in two days and total market capitalization reached \$5.7 billion.

According to Henry Silverman, chairman, 1110 U.S. Ave., the price paid for Goldbell Banker represents eight times the current cash flow, the same amount that was paid in the purchase of Century 21 last August. While there are far fewer Goldbell Banker franchises at 2,280 offices than those for Century 21, at 6,100 offices, the growth potential is far greater.

"Without us, their growth in earnings has been at a 25% rate for the past three years, so clearly they did well without us, with us they will increase revenues by selling more franchises," Silverman told HFSI BLSN288.

Hotel owners and real estate experts see the move as yet another sign of the auction efforts by HFS to boost profit in one market after another. With the latest purchase, HFS is involved in 25% of all residential real estate activities through its three entities, in addition to franchising 50% of all nationally based real estate offices.

Barry Webster, lodging research analyst for PaineWebber, said that the move adds leverage to the portfolio of real estate brands, increasing the company's value as a whole.

"It certainly gives them a dominant position in the residential real estate market, thus they don't have to battle the stock market like it," Webster said, noting that equity value rose \$300 million after the announcement.

Daniel Lesser, director of the hospitality group at Goldman & Wakefield, said that he thinks the latest move by HFS shows increased insight into the market. "I think they are on the cutting edge in defining industries ripe for defini-

tion, and pricing industries under one umbrella," Lesser said.

He also points out that HFS will have the option of starting a commercial real estate division, which was not possible for the previous seven years after CB Commercial was spun off from the company. Silverman, however, said that he was uncertain about the prospect, citing limited potential for another commercial real estate firm.

HFS made its first offer to the Fremont Group, an affiliate of the Richard Group, last summer, but was turned down cold. Then HFS sought to buy the other major real estate franchisor—Re/Max International. Better Homes & Gardens and Potomac, among them, but was rejected by them, as well. So HFS decided to continue to pursue Goldbell Banker.

"I thought it was clearly the best, so if we're willing to get our feet in the door now and have the door slammed on it one year later, so what? It's not my fault," Silverman said.

Goldbell Banker's reputation rests on a history that dates back to 1906, and it is currently positioned as the largest gross revenue producer for the nation, as well as being a leading provider of corporate relocation services. Including profits from its 325 owned brokerage offices, the company logged \$260 million in transactions in 1995. HFS is offering a trust to hold the franchise office assets, which will be operated by three independent trustees. The trust will split profits into advertising revenues.

The executives at Goldbell Banker see the main advantage to its acquisition, urging ownership to instead take the company public, according to Silverman. He committed both parties that a sale is the current market, with its

low interest rates, would yield the highest profits for them. He also assured executives that their compensation from HFS through stock options would match or exceed earnings from going public.

"There were no negotiations on price because it was a fair price, there was no dispute," Silverman said. "It was basically a question of whether they should be selling or not selling."

While the franchise end of the business will eventually migrate to Parsippany headquarters, according to Silverman, the trust and corporate relocation businesses will remain in Mission Viejo, CA offices, a variance to standard HFS practice, but part of the deal.

Formula For Success

Silverman said he anticipates rapid revenue gains for Goldbell Banker over the three ingredients of the HFS formula for success are in place: aggressive franchise sales, preferred vendor agreements and consolidation of overhead costs.

"We've had success in applying the same franchise sales techniques for hotels as for real estate and now we have 90% of the hotels in the marketplace," Silverman said. "Currently, their preferred vendor agreements are new and a lot of the programs are unique to them, so they will see immediate benefits." Some of the programs already in place in Century 21 and ERA are the courts on home security systems and new car and vacation home referrals.

Silverman said HFS is likely to buy any other real estate brands, but is looking at other franchise companies in other areas, although he insisted that a national trust across franchise was not a consideration, despite rumors to that effect.

"We don't compete with our customers and the travel agencies are our customers," Silverman said.

Promus Convention Reveals Mixture Of Optimism, Caution

(continued from page 1)

more than one extended-time hotel."

If Promus does go forward from the extended-stay segment, it will be with a product "probably similar to, but a little more upscale of Choice Hotels' Maclede Suites and similar to [Marriott's] TownePlace Suites," Schulte said.

As the convention's general session, Schulte selected the "suit and wings" starter, but also pointed out that Promus has been looking in the best development period in years, both for the industry and the company in particular.

The 321 agreements in Promus' development pipeline represents "our biggest backlog ever," he said.

Senior VP, Development Tom Kellner noted that Promus opened more hotels last year than any other company, attributing the success to the fact that Hampton Inn, Hampton Inn & Suites, Homewood and Embassy Suites are positioned in well-defined markets.

Schulte stressed that the industry is not overbuilding but merely increasing demand, and he warned that "new supply makes product quality and price-value more critical for existing hotels."

He noted that as many as 20% of Promus hotel guests have indicated on guest surveys that they are getting less than what they

paid for. "In most cases, it's price related," he said.

Summarizing Embassy Suites' recent history, Kellner noted that the \$500 million buyout of Crown Ser-

"We'll control 55% of the upscale all-suits business."

—Tom Kellner
Promus Hotel Corp.

ing Suites by FortCo. Since with the aid of Promus had the effect of "removing our only competitor that had a development focus." By the time the Crown Sterling hotels are collected in the Embassy brand, "we'll control 55% of the upscale all-

suits business," he said. Regarding Homewood, Kellner said, "the challenge is very simple; their aren't enough of them," as he displayed a graphic of a Top Secret

Homewood Development Plan, which turned out to be a Residence Inn by Marriott hotel director.

In the franchise support arena, Mark Wells, senior VP, franchise services and vacation improvements, including HFSIS II, a new Web software front end for the existing PMS system, a new market of check-in kiosks and a look at enhanced in-room services, including cable TV book-up with Internet connections.